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UNCLAS SECTION 01 OF 02 TAIPEI 001095

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SINGAPORE AND TOKYO FOR FAA
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COMMERCE FOR 3132/USFCS/OIO/EAP/WZARIT
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TREASURY FOR OASIA/LMOGHTADER

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SUBJECT: HIGH-SPEED RAIL EARLY IMPACT ON TAIWAN AIRLINES

REF: A. 06 TAIPEI 4112

- [1](#)B. 06 TAIPEI 3473
- [1](#)C. 06 TAIPEI 3446
- [1](#)D. 06 TAIPEI 3414

[1](#)1. (U) Summary: In the first four months of operation, Taiwan's high-speed rail has already reduced passenger loads on Taiwan's domestic air routes by 25 percent. To cope with declining passenger volumes, Taiwan's small carriers have cancelled routes, reduced fares, and entered a new cooperative arrangement. As the high-speed rail continues to expand service, some of Taiwan's airlines may not survive. End summary.

Impact on Transportation Market

[1](#)2. (SBU) Taiwan's high-speed rail, which has been in operation since January 5, is already hurting Taiwan's struggling local airlines. TransAsia Airways Chairman Tony Fan complained to us that for the last several years, passenger load factors on Taiwan domestic flights were already declining at a rate of about 10 percent per year. He explained that since the high-speed rail became operational, load factors on Taiwan west coast routes had dropped by an additional 25 percent. These routes account for about 50 percent of revenue for domestic carriers, he said. Mandarin Airlines President Harris Wang told us that the passenger load factor on Mandarin's Taipei-Kaohsiung flights had fallen from 75 percent to below 55 percent. Taiwan's Council for Economic Planning and Development issued a report that indicated the passenger load factor on Taipei-Taichung routes fell from 37 percent to 25 percent. The load factor for the Taipei-Chiayi route fell from 63 percent to 46 percent.

[1](#)3. (U) Other transportation service providers have not been as strongly affected by the high-speed rail. The number of passengers on Taiwan's existing railway system dropped by 6.9 percent from December 2006 to February [1](#)2007. Total passengers on intercity bus lines have

dropped only slightly, but bus companies have complained that revenue on Taipei-Kaohsiung routes have dropped by as much as one third.

Airlines Try to Cope

14. (U) Taiwan's local airlines have adopted several different strategies to cope with the decline in passenger volumes. Mandarin is eliminating some of its least profitable routes. It has already stopped Taipei-Taichung service. In addition it plans to cancel Taichung-Taitung and Taichung-Pingdong routes. At the same time, it continues to develop Taichung as a hub for service to international destinations including Hong Kong, Hon Chi Minh City and Macao.

15. (SBU) The local airlines have also cut fares on routes that compete with the high-speed rail. According to Mandarin's Wang, the new fares are only NT\$150 (about US\$5) more expensive than tickets on the high-speed rail. He said the reduced fares had attracted about 20 percent of lost passengers back to the airline. However, TransAsia's Fan noted that the lower fares had further decreased total revenue on the routes.

16. (U) In addition, the four domestic carriers (Mandarin, TransAsia, Far Eastern Air Transport and Uni Airways) have implemented a new cooperative arrangement on Taipei-Kaohsiung flights. A passenger who buys a ticket with one airline can take any Taipei-Kaohsiung flight offered by the four. The four carriers are also coordinating their schedules both to make them more convenient to passengers and to cut costs.

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Worst is yet to Come

17. (SBU) The airlines expect further disruption of the local market. Trans Asia's Fan pointed out that the high-speed rail is not yet operating at full capacity. Currently, it operates 19 trains per day. It will increase daily service to 39 trains before the end of the year and eventually run 78 trains per day. Fan believes that not all of the local airlines will be able to survive once the high-speed rail expands to full service.
YOUNG